AFRICAN AGENCY FOR INTEGRATED DEVELOPMENT (AAID)

MANUAL

ON MANAGEMENT OF

FINANCIAL AND MATERIAL RESOURCES

Preface

The Manual describes and explains the systems and procedures with regard to financial and material resources to be followed by all employees of the organisation.

This Manual is approved by the Board of Directors of AAID

And shall be in effect from 1st July 2011

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Signature Chairman Board of Directors

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ABBREVIATIONS AND ACRONYMS

AAID	African Agency for Integrated Development
IFRS	International Financial Reporting Standards
GAAP	Generally Acceptable Accounting Practice
Dr.	Debit
Cr.	Credit
KM	Kilometres
LPO	Local Purchase Order
GRN	Goods Received Note
SRN	Stores Requisition Note
LSN	Low Stock Note

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INTRODUCTION

1. Background

An Organisation is an entity with clear strategic goals and objectives; just like any other business entity, it is faced with different risks. These risks translate easily into financial risks which may interfere with achieving the set goals and objectives. The board and the management team are entrusted with the fiduciary responsibilities of running the Organisation in order to achieve its objectives.

The constitution states the basic characteristics of the Organisation which has to be maintained while managing it. The management of financial and material resources is one of the key areas which the board looks into. The board delegates most of the tasks to the finance committee and the management team. One of the tasks is to set up clear policies and procedures in the management of financial and material resources of the organisation.

These policies and procedures set out in detail the internal control measures set to ensure proper risk management. They are designed to give reasonable assurance that: operations are running efficiently, financial reports are reliable, applicable laws and regulations are being adhered to.

The following specific control measures are widely accepted as elements of good control and shall be used by management:

- Authorization – ensuring that management approves all transactions.
- Segregation of Duties – Ensuring that closely related tasks are not handled by the same person; e.g. Procurement of supplies and custody of the store.
- Validation – ensuring that all recorded transactions represent real transactions.
- Capture – ensure that all transactions are recorded.
- Valuation – ensuring that all amounts recorded for transactions are accurate.
- Classification – ensuring that all transactions recorded are assigned to the proper categories (i.e., assets, liabilities, revenues, expenses) and subcategories. Simply translated in the chart of accounts.

- Cut-off – ensuring that transactions are recorded in the appropriate accounting period.
- Access – ensuring that only authorized individuals, consistent with their job responsibilities, have appropriate access to assets.

A well-designed system of controls must include written policies and procedures to ensure that each control objective is met. Otherwise management would not be able to monitor the effectiveness of their risk management strategies and would certainly not be in any position to respond to new threats of achieving their objectives.

The goal of this manual is to establish basic rules and sound procedures for the management of financial and material resources within the organisation. These rules and procedures will provide the Board of Directors, the Management Team and the departmental managers with relevant data for decision-making.

2. Objectives of the Manual

A financial accounting manual is a document used as a guide, to prepare financial statements so as to provide quality financial information for users. In a organisation, user groups vary greatly they include employees, lenders, the board of trustees, suppliers and the government among others. A proper financial statement is therefore a general purpose one which can be useful to all user groups.

The general acceptable accounting practice requires that for a financial statement to be useful it should have the four qualitative characteristics of relevance, reliability, comparability and be understandable to the users. These qualitative characteristics are embedded in the five elements of financial statement which are: Assets, Liabilities, Equity, Income and Expenditure.

These elements are presented in a complete set of reports namely: a Balance sheet, Income statement, Statement of changes in reserve [equity], cash flow statement and notes to the accounts. An organisation has to present a financial review by management outside the financial statement that explains the main factors and influences of the

organisation financial performance, its source of funding, risk Management policies, strength and resources which are not reflected in the Balance sheet.

This Accounting Manual will assist management with a simple tool to prepare quality financial reports presented consistently. The Accounting manual will:

- Define Accounting policies and procedures set by the board of trustees to be implemented in order to meet the organisation's objectives.
- Present in a single document all the accounting procedures to be adopted by the organisation to:
    a. Record all financial transactions
    b. Monitor and control expenditure
    c. Satisfy the reporting requirements of the Government of Uganda and funding partners.
    d. Ensure timely and accurate financial and management reporting.
- Be a reference material by staff in the performance of accounting tasks and a training document for new accounts staff.

3. Responsibilities

The Board of Directors and the Management Team of AAID have extensive responsibilities for the running of the organisation.

4. Information-Based Decisions

Decisions about staffing levels, salary levels, fee levels, new equipment needed, output to be achieved, new services to be offered, new investments to be done and savings to be made are often made based on direct needs. But taking decisions to solve specific problems is a characteristic of management-by-crisis. This manual aims to develop information systems and skills that help to make information-based decisions.

The manual will provide tools that are aimed at improved skills, procedures and systems to collect and analyse data that provide relevant information. The data originate from different sources:

5. Duties of the Board

I. Examine, direct and approve the annual activity plan and budget for the organisation

II. Fix ceilings of expenditure within which the Organisation Management Team can decide without prior consultation with the Board of Directors, on single item expenditures;

III. Monitor implementation of the annual plans and budgets and re-direct when necessary;

IV. Examine and approve the Organisation annual statement of accounts presented by the Management Team;

V. Appoint (or confirm) the external auditor and receive and act on the annual external audit of the organisation accounts.

6. Duties of Management

I. Decide on current expenditures within the limits posed by the budget approved by the Board;

II. Ensure efficient and timely procurement of supplies;

III. Keep the management information system up to date and monitoring the progress of activities and financial performance at least monthly;

IV. Prepare the annual plan and budget for the organisation in accordance with the indications of the Board of Directors and the district authorities and present these for approval to the Board of Directors. The annual plan and budget proposals will be accompanied by objective explanations and arguments to enable the Board of Directors to take well weighted decisions.

V. Prepare the annual statement of accounts and activity reports, together with explanations for variations and proposals for redress, for evaluation and approval by the Board of Directors.

VI. Ensure that the salary structures and levels promote staff motivation and progress towards harmonisation with the Government of Uganda levels within limits of the financial means of the organisation.

VII. Monitor expenditures on a monthly basis to facilitate timely corrections in order to achieve the organisation targets, advising the Board of Directors in accordance and when necessary;

VIII. Ensure speedy implementation of the recommendations of the external auditor.

ACCOUNTING POLICY

The Accounting Policy consist of; Basic Accounting Policy of the Organisation and Accounting Activities and Controls.

Accounting Policy of the Organisation

1. **Basis of preparation of financial statements**

The financial statements will be prepared in accordance with and comply with International Accounting Standards under the historical cost convention, and will be presented in Ugandan shillings.

2. Benefit & Cost recognition

2a) Benefit

Benefit consists of revenue and gains.

a. Revenue arises in the course of the ordinary activities of the organisation including, donations and grants;
b. All other benefit not directly arising from the ordinary activities of the organisation, like Exchange Gain, is referred to as gains.

Benefit is recognised when there is documentary evidence of incoming economic benefits, (not on cash basis[1]; not when the benefit is actually received).

Evidence, refers to the fact that it can be measured reliably and it has a sufficient degree of certainty.

I. Interest from bank accounts is recognised when it accrues;
II. Donations are recognised on a cash basis i.e. as they are received.
    I. Grants and donations are recognised when the organisation's right to receive payment is established.

2. b Cost

Cost consists of expenses and losses.

Bookkeeping on cash basis would lead to irrelevant differences in the performance over the years. Using the evidence of benefit or cost as basis allows for linking the output in a specific period to the expenditure made to achieve that output.

a. Expenses arise in the course of the ordinary activities of the organisation and they are referred to as cost of provision services

3. Foreign currency translation

a. Transfers

Transfers to the Organisation in foreign currencies shall be converted into Ugandan shillings at the assumed transfer rates at the transaction dates. Each year at the balance sheet date (marking the end of the financial year) the assets[2] and liabilities that are expressed in foreign currencies are translated into Ugandan shillings at the transfer rate at that date. Because of the regular changes in currency transfer rates there are likely to be differences between the values in Ugandan shillings as previously booked and the values at the balance sheet day. The value differences will be booked as Exchange Loss or Exchange Gain at the balance sheet date.

b. Direct Payments

Direct payments to (and by) the Organisation in foreign currency will also be converted into Ugandan shillings at the assumed transfer rate of the date of payment. This includes the situation in which the foreign currency is exchanged at a Bank or Forex Bureau into Ugandan shillings.

4. Property, plant and equipment

All property, plant and equipment are recorded at cost less cumulative depreciations, resulting in 'the net book value'. This value is assumed to be a fair approximation of the market value.

Depreciation is calculated using the reducing Balance Method to write off the cost of each asset (or the revalue amounts) to their residual values over their estimated useful life. Reducing balance method is preferred because it shows a fair value of the asset over its useful life.

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including bank accounts

Depreciation is done on the basis of assumptions on the useful life of the fixed assets. The organisation agrees to depreciate according to the following list:

	Assumed useful life	Depreciation annually
Land	Nil	Nil
Buildings	40 years	= 2.5% annually
Furniture and Office Equipment	10 years	= 10.0% annually
Motor Vehicles	8 years	= 12.5% annually
Computer and Accessories	4 years	= 25.0% annually

Land is not depreciated as it is deemed to have an indefinite life.

When fixed assets are sold the selling price can be different from the book value. Any gain or loss from sale of assets will affect the Reserve Current Book Year.

5. Inventories / Stocks

Inventories are stated at cost value, not at the net realisable value. The cost is calculated on the basis of the average price paid for the items remaining in stock. The distribution of items follows the first in first out (**FIFO**) method. The cost of the items in stock comprises only of the direct cost of purchase and excludes trip and transportation costs made to enable the purchase. Received

6. Debtors / Receivables

Debtors are carried at anticipated realisable value. At the balance sheet date an estimate is made for doubtful debtors based on a review of all outstanding amounts. Bad debts are written off in the year in which they are identified as bad debts.

7. Capital grant / donation

Grants and donations for the purchase of fixed assets shall be included in the accounts as deferred income (on an equalisation account) and will be credited to the income statement on a reducing balance basis over the expected economic life of the assets, to offset the depreciation costs of the donated property.

8. Savings & Reserve

Savings are amounts included in the costs (therefore also included in the 'benefit & cost statement'), but not spent. This way they are excluded from the surplus.

9. Account Activities and Controls

1. The primary accounting activities and controls shall be needed in the organisation to:

    I. Safeguard its operations and assets.
    II. Prepare the financial statements, and
    III. Comply with local and international standards, rules and regulations.

2. The primary accounting activities of the organisation therefore shall involve all those activities that will enable the finance department to generate the relevant information for the organisation. These activities are:

    I. Collection and recording of all income or revenues
    II. Recording and making payments for services and goods
    III. Receiving, recording, issuing and controlling inventories
    IV. Recording fixed assets
    V. Budgeting and monitoring budgets
    VI. Drawing of financial statements.

3. Detailed procedures to be followed in a given transaction under each activity will be presented in specific sections. Below the basic activities and controls are listed. This section ends with an overview of the spending authority/limits (under 7), a list of the accountable documents (under 8), a list of main accounting records (under 9) and the standing internal control instructions (under 10).

10. Cash receipts, credit facilities

Custody and control of money received

a. The organisation shall appoint cashiers and a chief cashier to be responsible at different stages for the collection and handling of money received.

c. The cashier(s) is/are responsible for receiving cash from patients (for the responsibility of billing, see under 10, in the paragraph on separation of duties). Cashiers should not also be responsible for or even have access to books of accounts, other funds and credit notes.

d. Arrangements shall be made to have someone take over the work of the cashier during absence at lunch, on holiday or through sickness.

e. The chief cashier is responsible for, receiving direct payments, the cash and related documents from the cashiers, and maintaining records of money received.

11. Authority to receive cash

a. Cash and cash equivalent should be received only by appointed cashiers.

b. The amounts received need to be evidenced by the use of accounting documents in the form of receipts, which are serially pre-numbered.

c. The banking of daily collections by each cashier is acknowledged through a general cash receipt written by the chief cashier.

12. Control of accounting documents.

a. The Internal Auditor shall be responsible for checking the receipt carbon copy of the patients' receipts with the cash records and bank paying in slips and eventually the bank statements.

b. Any differences found should lead to an investigation and arrangements should be made to avoid repetition of the problems.

13. Paying into bank

a. Cash payments shall not be made out of cash collections or the sales proceed. All cash must be banked intact by the accountant.

15. Payments for Goods and Services

a. All payments to outsiders must be made by a crossed cheque which must be signed by the responsible signatories; after all necessary approval procedures are complete.
b. Payments to insiders can be done out of petty cash only for those issues explicitly included in the imprest system.
c. Payments, either by cheque or in petty cash, should always be based on approved payment vouchers, which are serially pre-numbered.
d. Payments for goods and services are in principle paid on the basis of invoices for goods and services after delivery of the goods in good order or after the satisfactory use of the services.

Signatories to any of the Organisation's bank accounts shall be appointed only by the Board of Directors.

16. Inventory control

a. Procedures concerning issuing, storing and receiving of goods as well stock taking procedures are presented in detail in part 3 of this manual.
b. Receipts and storage of goods must be done through accounting documents in the form of goods received notes. All receipts must be recorded and entered into goods received notes and stock cards immediately on receipt. In case the delivered goods are not of acceptable quality then the storekeeper will fill a Goods Return Note.
c. The consumption of inventory shall be done through accounting documents such as stock cards and stores requisition notes, which allow tracing the flow of goods from the stores to the departments.
d. Under no circumstances must stocks be issued for use in any department before recording on stock cards and stores requisition notes.
e. In emergencies, the chairperson of the management team must approve use of stock prior to entering it in the accounting documents. The entries must be regularised immediately, the following day.

f. Stock shall be checked quarterly by filling a stock taking sheet which is reported to the organisation management.

17. Fixed assets

a. Acquisition and disposal

All planned purchases and disposal of fixed assets must be included in the fixed assets plan, annually. The acknowledgement of receiving fixed asset should be done on a goods received note.

b. Custody and recording

All fixed assets of the organisation shall be recorded in the fixed assets register and subjected to physical verification to establish its physical condition annually, before the end of the financial year. All fixed assets of the organisation except for land and buildings should be engraved or marked for ease of identification.

c. The fixed assets plan should also include details concerning the maintenance of the fixed assets. There should be a procedure concerning moving fixed assets such as motor vehicles, to ensure proper use, regular maintenance and log books.

18. Master Budget and Subsidiary Budgets

a. Before beginning of the new financial year the master budget and subsidiary budgets (which together form the master budget) for that financial year shall be approved by the board of directors by 30th November of the existing FY.

b. The subsidiary budgets are the detailed income and expenditure budgets from the cost centres. These subsidiary budgets are submitted by the program managers to the budgetary team. The departments are assisted timely by the accounts' section with the relevant information they needed to prepare the departmental budgets.

c. If the new budgets are not yet approved at the start of the new financial year, then expenditures should be done conservatively until the new budget is approved.

d. Monthly overviews should be prepared, comparing the budgeted with the actual costs and benefits to guide management and the board in decision making about the organisation.

19. Financial Statements

As a principle quarterly financial statements shall be made by the accounts' section showing the cost & benefit statement for presentation to the management team.

20. List of Accounting Documents

a. Accountable documents are documents in use by the accounts' or finance department and are serialised and carry the name of the organisation.
b. The accounting documents are kept in a strong room (safe) or exclusive stationery store and are only issued on a prescribed requisition order form. The requisition order form is authorised by the director himself.

The documents are accounted for daily and in a sequential order. The accounting documents are:

- Receipts, (to receipt income)
- Demand Notes, (to record debts)
- Payment Vouchers, Petty Cash and Cheque (to record payments)
- Invoices (for goods and services, from creditors)
- Goods Received notes (to record incoming stock; separate for each store and for fixed assets)
- Goods returned notes (to record refused stock; separate for each store)
- Stock cards (to record available stock; separate for each item)
- Stores requisition notes (to record outgoing stock; separate for each cost centre)
- Journal vouchers (to book non-cash transactions)
- Capital sanction form

21. Main Accounting Records

The main books of accounts shall be kept by the accounts section shall include but not limited to the following:

i. Petty cash book
  - to record receipts and payments, by petty cash

ii. Bank books
  - to record receipts and payments, by bank

iii. Cash analysis book
  - to record receipt and payment, with their debit and credit entries

(When using a computerised system, overviews can be printed to replace the cash analysis book)

iv. Journal analysis book
  - to record non-cash/bank bookings (including incurrence of debts), with their debit and credit entries

(When using a computerised system, overviews can be printed to replace the journal analysis book)

v. Stores analysis book
  - to record incoming and outgoing items, with their destination and cost

(When using a computerised system, overviews can be printed to replace the stores analysis book)

vi. Main ledger
  - to record cost/expenditure and benefit/income for each account on a monthly basis

(When using a computerised system, overviews can be printed to replace the main ledger)

The cumulative balances in the main ledger are used to produce a trial balance, to check the accounting system and from where reports can be made.

Where any of the above accounting documents (receipts/vouchers/notes) is cancelled, this should be signed off and left in the book for purpose of audit. It should be recorded in the

related analysis book that the particular document has been cancelled. All accounting documents shall be printed in duplicate.

The originals (except for receipts) shall be for the accounts' section. All completed booklets of accounting documents shall be handed over to the organisation accountant for safe custody. New books will be issued on presentation of the old book with a requisition order.

Additional records kept at the other departments:

vii. Stores received notes
- to record goods coming into the store

viii. Stores requisition notes
- to record goods going out of the store to the departments

ix. Transport requisition notes
- to record all use of vehicles per department

The books of accounts and the additional records together form the basic record system from where financial reports are produced.

22. Standing Internal Control Instructions

a. Line of Authority

The Finance manager heads the Finance department. The Accountant and cashier are directly responsible to the finance manager. Finance manager is directly responsible to the executive director.

b. Personnel in Accounts section

Staff in the accounts' section will be given responsibilities which are commensurate with their abilities and experience.

c. Separation of duties

There should be separation of duties in different field categories of, authorisation, execution, receipting income, purchasing and controlling.

d. Supervision

Independent or self-supervised functions are prohibited. Every activity in the accounts' section will be overseen by the accountant and the Finance manager, who must check and appraise the activity.

e. **Responsibility**

Every activity and function in accounts' section will be traceable to a particular individual who is answerable and shoulders responsibility of the action. Activities performed under directives and orders must clearly be stated so in writing.

f. **Change of Duties**

Job rotation is encouraged where there are adequate personnel in the accounts' section. Certain jobs should not be held by the same staff for more than two years.

Annual leave must be taken when due unless it is expressly declined by the head of department or the management team.

g. **Security**

All accounting documents, books of accounts and facilities like desk calculators must be locked in strong lockable cupboards at the end of working days or when not in use. At no time may a cashier handle money without a safe. Access to the cashier's office is strictly limited to authorised persons only.

BASIC CHARTS

The Accounting System is based on three dimensions. The three dimensions together keep track of WHAT was the money spent on (account), WHO was it spent by (cost centre) and WHERE did the resources comes from (project)?

The Chart of Accounts is a list of codes used to collect income and /or expenditure into meaningful categories.

The Chart of Cost Centres is a list of codes reflecting specific entities within the organisation which is a homogeneous unit:

- Carrying out a single form of activity, e.g. performing deliveries, treating patients;

- Using resources that can be traced back to the unit, e.g. sundries requested by a specific department;
- With identifiable managerial responsibility.

The Chart of Projects is a list of codes reflecting specific sources of funding for which separate financial reports are required.

The chart of accounts is an overview of all accounts used in the organisation. A chart of account is a classification of financial transactions. Each account is indicated with an account number consisting of four numbers. There is an internationally recognized standard order in which the different categories of accounts are presented.

CHART OF COST CENTRES

Cost centres identify specific part of the organisation the cost is made referred to as a department.

When all costs are collected for a certain department (or another entity) then this is called a cost centre. The advantage of a cost centre is that you can link the costs of that department with the output of that department,

The responsibility for the costs made by the cost centre shall be carried by the cost centre manager (the departmental in-charge), but only for the controllable costs. The budget of the cost centre shall clearly indicate which costs are to be controlled by the cost centre manager (Head of Department

CASH CONTROL

1. Responsibilities

A. Cashier
    i. Decides weekly about payments
B. Director
    Certifies payments

C. Accountant

- Keeps payment request ledger
- Weekly prepares overview budgeted/actual income/expenditure
- Writes payment vouchers/cheques
- Keeps debtors' and creditors' statement out bank
- Prepares payroll for the Organisation
- Carry out bank reconciliations

CASHIER

One person shall be appointed as the cashier, shall be in charge of all the cashiers and will be responsible for the following duties.

- To receive all cash payments to the organisation, both the payments by cheque and the direct payments
- To receive all cash withdrawn for the organisation from the bank
- To pay out all direct payments by the organisation, on the basis of approved cash payment vouchers
- To maintain a cash book with the columns: Date, Description, Incoming, Outgoing, Balance
- To keep the cash book and the cash box matching.

2. BANKING INTACT

As a principle all direct cash received by the organisation is banked before using it. This means that payments are done by cheque and from the monthly imprest only.

3. IMPREST

In principle, the organisation will withdraw weekly one (1) million shillings from the bank for cash payments, each time on the basis of an approved voucher. In case there is amount of petty cash available at the end of the week, this will be deducted from the petty cash requested for another week. The chief cashier will have to account petty cash

received before any other replenishment made. Petty cash accountability form will have to be filled and approved by the accountant.

4. PAYMENT PROCEDURE

a) Petty Cash Payments are made by the cashier only on the basis of approved payment requisitions and payment vouchers and are recorded immediately in the cash book.

b) Payments above 100,000/= will be effected by the accountant. All invoices from suppliers and other payment requests with their documentary evidence are received by the organisation accountant who records them in a register. Internal reference numbers are allocated to all payment requests.

c) The Accountant shall provide all payment requests to the ED for the week to make decisions which ones to honour or not. To be able to make these decisions the accountant must provide every week with the full list of outstanding payment requests and an up-to-date comparison of budgeted and actual income/expenditure for the period from the beginning of the financial year.

d) All payments above 100,000/= shall be made by cheque while payments below 100,000/= shall be paid by cash.

5. PAYMENT VOUCHERS

a) All payments vouchers must specify the payee and address. It must also specify the reasons for the payment and finally it must be coded with the relevant account code, plus where relevant the code for the cost centre and the project.

b) The unwritten original payment vouchers are kept in a payment voucher book. The payment vouchers are serially pre-numbered and carry the name of the organisation. Any missing or unexplained serial numbers must be explained. Cancelled payment vouchers must not be thrown away, but are kept in the payment voucher book for easy reference.

6. CHEQUE PAYMENTS

a) For payments by cheque, a cheque book is obtained from the bank through a cheque request form. The payee and amount stated on the cheque must agree with details on all supporting documents. All cheques must be crossed a/c payee only.

b) Details of the cheque shall be paid (cheque number, payee and amount) must be entered in a register before despatch for signing.

c) The cheque book counterfoils shall be kept under safe custody. All cheques must be signed by the authorised signatories. After signature by the authorised signatories, the payment request form, payment voucher and all other supporting documents are stamped "PAID". Cheques are then finally despatched against signature of the recipient or payee.

7. FILING ACCOUNTABILITY

a) All original payment vouchers are kept in a specific file organised by number for easy reference. The payment voucher is put in the file after it has been properly recorded in the books of account or in the computer. The carbon copy remains in the payment voucher book.

b) All the documents of accountability (payment requests, receipts, goods received notes, reports, letters, etc.) will be attached to the original payment voucher, when the accountability is received and kept in a safe and accessible place.

8. PERIODIC PAYMENTS

a) An adequately detailed schedule is maintained by the accounts section to ensure that no track is lost of periodical accrual and other payments due to contractual obligations or arrangements.

9. SPLIT PAYMENTS

b) In case the payment is done in two or more instalments the original invoice is attached to the payment voucher for the first instalment. The payment vouchers

for later instalments will have photocopies of all supporting documentary evidence, including the payment vouchers of previous payments.

10. CONTACT WITH BANK

c) Staff going to bank or transact business in the bank on behalf of the organisation should officially be introduced to the bank. Any other staff that goes to the bank for official purpose should carry an authorisation letter from the responsible signatories.

11. RECONCILIATION OF THE DEBTORS' AND CREDITORS' LEDGER

This function will ensure that all outstanding debts and all accounts payable are always fully stated in the books of accounts and that they agree with the statements of the debtors and creditors.

These statements are list of all debtors and/or creditors with the outstanding amounts. The debtors' and creditors' statements shall be used to compare transactions within the debtors' and creditors' account in the subsidiary ledger. Any disagreements are communicated using ordinary correspondence and necessary adjustment entries are passed via journal vouchers.

TRANSPORT

1. Transport Procedures

i. The administrator shall manage the use of motor vehicles on the basis of transport requests by the departmental in-charges. The management of the motor vehicles consists of allocation of vehicles and drivers, deciding time of departure and keeping the cars ready for duty (sufficient fuel and oil, proper quality of tyres, necessary repairs and maintenance done, availability of tools and spare parts, proper insurance and license).
ii. The departmental in-charges shall request for transport by filling a transport request form. The transport request forms shall be kept in a file.

iii. All the vehicles shall have log books to record information about the movement of vehicles.

iv. The log books should have the following details:

- Date of journey
- Driver's name
- Name of officer using the vehicle
- Department that requested for the vehicle
- Kilometre readings at start and at end of the journey
- Distance covered
- Destination and purpose of the journey
- Litres of fuel added during trip (if any).

At the end of each trip the driver has to ensure that all relevant data are entered into the logbook.

At the end of the month the accounts-assistant assigned for this duty will collect all log books and will match all trips recorded in the log books with all transport request forms.

In case of differences found (trip requested but not in log book, or trip recorded but not requested) and/or in case of incomplete recording in the log book a report will be made and presented to the administrator.

Based on the matched requests and logbook recordings a monthly report is prepared with the following details per vehicle.

- Total kilometres driven per vehicle
- Total litres added per vehicle
- Litres per kilometre, per vehicle
- Costs, separated according to chart of accounts, per vehicle
- Total costs per kilometre, per vehicle

Monthly a report is prepared by the Assistant Accountant with the following details per department.

- Total kilometres per vehicle
- Fixed price per kilometre per vehicle
- Total contribution to be paid by the department per vehicle (= kilometres * annually fixed price)

2. Transport Bookings

1) All organisation vehicles and organisation motorbikes are considered as cost centres. Income is gained by these cost centres through the internal payment by the departments for the kilometres provided, using a fixed price per kilometre per car. A fixed price is used for the departments so that clarity exists for the departments on the costs involved in requesting for transport.

2) Expenditure for fuel, oils, repair, maintenance, tyres, tyre repair, insurance, license, spare parts and tools are booked for each vehicle on their cost centre. In principle the income and expenditure should balance. Any difference can be recognised as transport gain (fixed price set too high) or transport loss (fixed price set too low).

3) If the price was set right then the income would balance with the expenditure. Most likely however, at the end of the year there will be a difference between income and expenditure. This difference constitutes either a transport gain or a transport loss.

FIXED ASSETS

1. Introduction

A fixed asset is an item of property, plant or equipment having a life time of more than one year, owned by the organisation and used by the organisation to provide services.

2. Total cost

The total cost of a fixed asset is its purchase price as paid to the supplier, plus any directly attributable cost needed to make the asset functional at the organisation. Directly attributable costs are cost of site preparation, delivery, installation costs, relevant

professional fees etc. These costs can first be booked to a ‘work in progress’ account and later be totalled in the relevant fixed asset account.

3. Categories

Fixed assets are distinguished in the following six categories: land, buildings, medical equipment, computers and accessories, furniture / office equipment and vehicles.

4. Cost of fixed asset

The costs of the fixed assets are the depreciation costs. All fixed assets apart from land loose value over time and that loss of value is a cost to the organisation.

5. Methods of depreciation

The organisation shall use reducing balance method of depreciation as it shows the fair value of the asset.

6. Net book value

The book value of a fixed asset is simply the purchase price minus the total depreciation of that asset over the years.

7. Fixed Asset Register

The organisation shall keep fixed assets register that allows the organisation to spread the costs of the fixed assets evenly over the years of useful life of the assets. This plan is a tool to identify timely the needs for replacement and major maintenance.

8. Revaluation

An asset shall be adjusted to the market value over a certain period of time, this is called revaluation. The organisation shall carry out revaluation every after five years to ascertain the actual value of the assets; this would help in case of major maintenance.

Accounts involved in fixed asset

100	Land
110 115	Buildings Depreciation Buildings
120 125	Equipment Depreciation Equipment
150 155	Furniture Depreciation Furniture
160 165	Vehicles Depreciation Vehicles
6815	Buildings Depreciation Costs
6825	Equipment Depreciation Costs
6955	Furniture Depreciation Costs
6865	Vehicles Depreciation Costs
6899	TOTAL DEPRECIATION COSTS

The fixed assets function of the accounts' section refers to the following activities:

- Preparing procurement of fixed assets
- Keeping the fixed assets register up-to-date
- Making bookkeeping entries concerning the fixed assets
- Keeping records of original documents and correspondence concerning fixed assets
- Preparing reports on the value of fixed assets and on depreciation.

Procurement of fixed assets

a. A fixed asset shall be purchased on the basis of an approved capital budget. The request is initiated by the departmental in-charge, the administrator or the management team.
b. The request shall be approved by the procurement committee.

c. A local purchase order shall be filled and the process of purchasing is the same as that of purchase of stock items. For specialised equipment it is required that a technical person shall be involved in the purchasing. Purchased assets shall be recorded on goods received notes just like any other stock item, except for buildings.

1. Construction of building and other work in progress

a. All costs incurred during the construction of a building shall be debited to an account called "capital works in progress". On completion of the building or the work in progress, an entry will be passed via a journal voucher to debit the total cost of the asset to its respective cost account (e.g. purchase price buildings) and the account "capital works in progress" is credited.

b. All work in progress shall be verified and certified by the head of maintenance staff who will issue a certificate of completion before adjustments in the books of accounts can be made.

2. Making entries in the fixed assets register

a. All new fixed assets (except land and buildings) shall be received on a goods received note. The purchase is entered into the financial books and into the fixed asset register. Land and buildings are passed through a journal vouchers, just as any adjustment entries. The assets register is maintained for each asset on a separate page. The information for each asset should be in such a way that it is easy and clear to trace any asset to its account. (See Appendix……. For Asset Register)

3. Overview per Asset

1) Furthermore, for each item records should be kept on how much has been depreciated for which period and the cumulative depreciation so far. The depreciation rates calculated for each type of assets should follow the accounting policy of the organisation.

4. Donation received for purchase of fixed asset

1. The bank is debited and an equalisation account is opened to recognise the value of the donation received. The income received is not booked as benefit, but as deferred income. Each year part of the donation will be recognised as benefit, to offset the annual depreciation costs linked to the donation.

5. Donation received in kind

i) In this case the fixed assets are directly debited and the deferred income is credited.\

Debit 2200 Purchase Fixed Asset

Credit 1900 Income from Donor

6. Depreciation

Annually a certain amount shall be depreciated. This means that a cost recognised and that the total value of the fixed asset is changing annually. The cost of the fixed asset is step by step booked on one of the benefit & cost accounts and therefore the purchase of the car is gradually recognised as a cost.

Debit Depreciation costs vehicles

Credit Depreciation vehicles

7. Equalisation

In case the fixed asset was a donated item, then the depreciation costs should not burden the organisation. This is done by offsetting the depreciation costs by the parts of the donation.

Debit 1900 Income from Donor

Credit 6865 Depreciation Costs

This way the account 6865 is debited and credited and the real burden of the depreciation (165) is taken from account 1900, the equalisation account.

8. Fully depreciated and continued usage

If an asset is fully depreciated but is still functional, then it can continue to be used, although further depreciation is not necessary anymore.

9. Deregistration

An asset is deregistered when it is decided that it will be sold or that it has reached the end of its useful life. On deregistration of an asset the asset account shall be credited and the cumulative depreciation is debited. Both values are booked to the disposal control account.

The original value and subsequent depreciation of the asset shall be withdrawn from the asset accounts and that the net book value is put on the disposal control account. If the asset was fully depreciated and the useful life has completely ended, then it ends here.

Debit: Disposal control account
Credit: Vehicles

Debit: Depreciation Vehicles
Credit: Disposal control account

The control account now keeps the net book value of the asset, while the information about purchase price and value of depreciation shall be withdrawn from the register.

10. Sale Fixed Asset

i. In case the fixed asset can be sold, then it could be at, below or above the net book value. If it is sold exactly at the net book value, then there shall be no loss and no gain and the disposal control account is empty. If it is sold below the net book value then there is a loss to be booked.

   Debit: Loss on disposal

Credit: Disposal control account

ii. If the asset is sold above the net book value then there is gain to be booked.
   Debit: Disposal control account
   Credit: Gain on disposal

In case the asset still has a certain net book value, but cannot be used or sold anymore, then a loss shall be accepted; as if it had been sold for a price of 0, while it still had value.

11. Keeping Original Documents and Correspondence

The originals of the official documents related to the fixed asset (like title deeds, sale agreements, delivery orders, certification of completion, etc.) shall be kept under safe custody. Each type of asset (linked to the account code given to the type of fixed assets) has its own file. Any other correspondence in connection with the fixed assets shall be filed with these documents.

12. Preparing Annual Reports

Annually, reports shall be provided with the total value of the assets per account (purchase price, cumulative depreciation at begin of year, amount depreciated that year, cumulative depreciation at end of year). This report should be presented per cost centre and for the organisation as a whole.

SALARY ADMINISTRATION

This chapter considers the national regulations and the organisation employment procedures concerning salary management.

Salary management shall consist of several steps:

1. Maintaining up-to-date staff files
2. Preparing the salary overview
3. Preparation of payments to staff
4. Distributing pay slips to staff
5. Preparing of payments of statutory deductions

6. Making the bookings for the salary payments
7. Adjusting the ledgers for staff debtors

1. Maintaining an up-to-date staff file

a. The administrator shall be responsible for keeping the staff files up-to-date through an explicitly assigned payroll accountant.

b. Changes in the salary of any of the staff shall be made upon receipt of a memo or a letter, specifying the changes to be made in a person's salary from the recruitment committee through the Administrator.
c. The changes can be: termination of employment, adjustment of basic salary, new recruitment, promotion to another scale and/or another step, change in allowances to be received, information about advances given and loan repayments to be made, outstanding medical bills to be paid or any other change that directly affects the amount to be paid.
d. Forms from staff members that have left the organisation shall be kept in a separate file (called: Past Staff Members). The up-to-date file (called: Present Staff Members) will only contain the staff members still employed.
e. The staff data base will be closed from the 25th of every month. Letters and memo's received after the 25th are carried forward to next month, unless it involves termination of the employment.

2. Preparing the Payroll

The Payroll shall show all the items that are part of the payment, including allowances and deductions. The organisation Accountant shall be responsible for the preparation of the payroll and after it will be checked by the Internal Auditor and approved by the Finance Controller.

3. Preparation of payments

The Accountant shall prepare payment vouchers after the payroll is approved and cheques with a list of all names of staff members their bank account numbers and the

amount to be paid to them by the bank, with the following instructions in the letter: "Please pay the following staff the indicated amounts; being their salaries for the month of ………"

4. Distributing pay slips to staff

A pay slip shows the salary payment details for one individual. Members of staff shall collect their payslips from the office of the accountant and will sign for them. Any complaints that may arise from the pay slips should be directed to the Accountant and the accountant shall forward it to the Finance Controller. The Finance Controller shall investigate the complaint and will answer the person complaining as soon as possible. Any corrections that appear to be needed will be included in the salary payment of next month.

5. Preparing of payments of statutory deductions

The salary overview shows the total amounts that were deducted for P.A.Y.E., N.S.S.F. and Local Service Tax. If other deductions have been made for payments to third parties then they can be treated similarly. For each deduction a separate payment voucher/cheque shall be written, indicating the amount to be paid and for which month. A list with all the staff names and the respective amounts shall be attached to the payment voucher.

Statutory Deductions shall be paid before the due dates as required by government. In case the statutory deductions are not paid with in the required time, the finance controller shall write a letter to the responsible organs about the delay and copy the Administrator and the Accounting Officer.

6. Accounting Entries for the salary payments

The account Basic Salaries shall be debited for each cost centre with the total value of remuneration (gross salary + NSSF-employer-contribution)

The accounts to be credited shall be, but not limited to the following:

Staff Loans (per staff member)

Staff Advances (per staff member)

Payable Net Salaries

Payable NSSF

Payable PAYE

Payable LST

Insurance Fees

Medical Fees

The amounts shall be found on the payroll. The detailing of the total value of remuneration to the other accounts for each cost centre shall be presented in reports, per month and in total.

7. Adjusting the ledgers for staff debtors

Included in the salary payments can be repayment of loans, advances or any other debt of the staff. These ledgers shall be updated to reflect the repayments done.

After these ledgers are adjusted all outstanding balances shall be extracted for an ageing analysis, and staff involved should be notified.

STORES MANAGEMENT

1. Introduction

Tracing the use of material resources is crucial in a cost-based system because the use of resources is the basis for the monitoring the cost.

a. All material resources shall be entered in the stock cards of the store before going to any of the departments to be used.

b. All purchased material resources (even newly purchased Fixed Assets) shall be recorded first on a Goods Received Note, as basis of recognition of their entry into the organisation.

c. All issues of material resources shall be based on a Requisition Note, indicating the department requesting for the material. The Requisition Notes from the different stores will form the basis for assessing the cost per cost centres.

2. Accounting Entries

a. The goods arrive at the organisation
   - The Account for that specific Store is debited
   - The Bank or a Creditors Accounts shall be credited

b. The goods are being used by a specific cost centre
   - the Account for the Items are debited, specifying the Cost Centre
   - the Account for the Store is credited

3. General Procedures to be followed

A. Procedure for Ordering Items
B. Procedure for Setting Minimum
C. Procedure for Setting Maximum
D. Procedure for Purchasing Items
E. Procedure for Receiving Items
F. Procedure for Issuing Items
G. Procedure for stock-taking

A) Procedure for Ordering Items

1. The Store's In Charge shall be responsible for monitoring the available stock.
2. All items in store have a Stock Cards (see example at the end of this chapter of a computer stock card and a manual stock card) on which the presently available stock is always kept up-to-date, by recording all items received and all item issued.
3. The Stock Card should indicate for each item the minimum and maximum quantity needed (see specific procedures hereafter).
4. When the available stock reaches the minimum level (as indicated on the stock card), then a request will be made in writing by the Store's In Charge to the administrator for the purchase of specific items.
5. The request should show the list of items needed and the quantity.
6. The quantity to be ordered is: maximum quantity (as indicated on the stock card) minus present quantity.

B) Procedure for Setting Minimum.

1. The minimum stock level is the level at which a re-ordering procedure needs to be started.
2. This means that the minimum stock level shall at least be sufficient to cater for the period till the new stock is available for dispatch. This period is called the 'lead time'.
3. The lead time starts when the store's in charge notices that the minimum has been reached and ends when the goods are in store ready to be issued. This includes time for ordering, approval, organising the payment and the period involved in the actual transport. In principle the lead time would be set at one month, but the management team could adjust this period on the basis of the specific circumstances of the organisation.
4. In case of unexpected circumstances the actual lead time could be longer (problems in financing, problems during transport or item not available at supplier). To cater for the unexpected circumstances the lead time shall be set on the basis of the minimum.

5. The minimum set will need to be checked from time to time, and perhaps adjusted to match the increase or decrease in use of the item.

C) Procedure for Setting Maximum

1. The maximum stock level is the level that should be in stock after the goods are re-ordered.
2. The maximum stock shall cover the period till the next re-ordering. So, that the next re-ordering should be done around the period when the minimum is reached. The period between two standard orders is called the purchasing period. In case the purchasing period is set at two months, then the maximum should cover four months of use.
3. The in charge of store shall make sure appropriate stock is kept to avoid over stocking or under stoking.

D) Procedure for Purchasing Items

1. The procurement committee shall identify the most suitable supplier on the local market by comparing the conditions of the different suppliers (price, quality, credit facilities). In case a purchasing officer is appointed then the procurement committee shall request the purchasing officer to collect the necessary information.
2. Once the most suitable supplier for this purchase is identified then a local purchase order is written.
3. The goal of the local purchase order is
    a. to inform the supplier of the items demanded for supply
    b. to guarantee the supplier that it is an officially approved demand by the organisation
    c. to control the selection of the supplier
4. In case items are to be purchased from Kampala then they should whenever possible be purchased from a previously selected ‘preferred supplier’ (like JMS for drugs/sundries and related items). The procurement committee should identify

a preferred supplier for each type of goods by comparing the conditions of the different suppliers (price, quality, credit facilities). In case a purchasing officer is appointed then the procurement committee can request the purchasing officer to collect the necessary information.

E) Procedure for Receiving Items

1. All items purchased shall first be brought to the relevant store, before being dispatched to a department.
2. The Store's In Charge shall record all items purchased on a Goods Received Note (GRN), on which is recorded the date, the item(s) purchased, their quantity and the total value per item as indicated by the supplier on the receipt or invoice.
3. The opening of the packaging and the checking of the contents always needs to be done by the Store's In Charge in the presence of the accountant (or a staff delegated by the accountant) or a member of the management team.
4. The accountant or management team member will also sign the Goods Received Note as witness to the recording of the items received.
5. The Store's In Charge will check the quality of all items purchased.
    a. If the quality is insufficient for the intended use then the store In Charge will make write a Goods Returned Note, specifying the items and the problem with the quality. In this case the supplier needs to be contacted and an agreement needs to be made on the steps to be followed. If the goods are returned to the supplier then a Credit Note should be received from the supplier.
6. A copy of the Goods Received Note will be given to the Purchasing Officer, who will add the document to the accountability.
7. The information from the Goods Received Note will be indicated on the Stock Card for each item.
8. After updating the Stock Card the original Goods Received Note will be filed in a special GRN-file where the Notes will be kept in chronological order.

9. (where this applies) At least once a week the GRNs will be entered into the computer to update the computerised overview of the stocks.

F) Procedure for Issuing Items

1. Items are given out only on the basis of a written and authorised original Stores Requisition Note (SRN). A copy is retained at the department and is kept for future reference.
2. The quantity ordered by the department should be based on records. For example, orders for drugs should be based on doctor's prescriptions as written on the patients' medical records.
3. The SRN should be signed by the In-Charge or the Deputy in-Charge or head of department. No other staff is authorised to request for items, unless authorised in writing by the Organisation Administrator with a copy to the store In-Charge. The SRN will be returned in case it is not (properly) authorised.
    a. At least from time to time the quantity ordered by the department shall be compared with the available documents (e.g. for drugs, compare with summary of doctor's prescriptions) by the Administrator or Senior Nursing Officer.
4. If the item(s) requested is/are temporarily not available then this shall be indicated under "Quantity Delivered" on the Requisition Note ("presently not available"). The store In-Charge will also write when the item is expected to be available again from the store.
5. If the item(s) requested is/are not standard available then this is indicated on the Requisition Note ("not standard available"). Approval for the purchase of items not standard available requires a written application from the departmental In-Charge to the Management Team.
6. Under "Quantity Delivered" the store In-Charge will indicate the number of items issued to the department.
    a. If the item(s) requested are not present in enough quantity then the store In-Charge will issue a lower number of items then requested.
    b. In case a lower quantity is issued than was requested this is reported on the Low Stock Note (LSN, see example form) which is presented weekly to the Organisation Administrator / Finance Controller.

7. If the Requisition Note is signed and authorised and the item(s) is/are available then the request will be dealt with.
8. The hours in which the store is open to bring requests and to collect items will be decided by the stores in charge.
9. The store In-Charge will indicate the number of items taken out of the store on the Stock Cards, before the items are issued out.
10. The SRN will be signed by the person collecting the items indicating the receipt of the items in good order.
11. After signing by the person collecting, the SRN is stored in the SRN-file where the SRNs are kept in chronological order.
12. When the items arrive at the department then the person receiving the items at the department (different person from collecting person) will record the items received in the store-book, kept at the department.
13. After receiving the items at the department the copy of the SRN will be kept in a special SRN-file where the SRNs are kept in chronological order.
14. Weekly the store In-Charge will check the SRN-file at the department to see if they match the records at the store.
15. Any SRN missing from the SRN-file at the department will be reported immediately in writing by the store In-Charge to the Organisation Administrator.

ACCOUNTING FOR DONATIONS

1. CASH

Accounting for donations and grants depend on the period for which the donations and grants are received.

a. Donations and Grants for the present Financial Year

Donations or Grants that are designated are given an account under
“Donations and Grants Account”. The name within the quotation signs indicates a group of accounts on the Chart of Accounts; see the list at the end of this text.

Debit; Bank Account Y
Credit; Designated Donation X

If the Donation or Grant is free to be used by the organisation then it can be treated under "Donations and Grants".

Debit; Bank Account Y
Credit; Donation Z

b. Donations and Grants for later Financial Years

Only when the Donation or Grant is meant for the present financial year, it should be accounted as indicated above. Donations and Grants that are for later financial years should be accounted for as deferred income on a balance sheet account (which means: recognising the donation still as a liability).

Debit; Bank Account Y
Credit; Deferred Income Donation X

c. Donations and Grants for both the present and later Financial Years

If the donation is partly for this financial and partly for later financial years, then the whole amount shall be accounted for first to the account for deferred income.

The specific part for this financial year can then be accounted for as indicated above as income for the present Financial Year

Debit; Bank Account Y
Credit; Deferred Income Donation X

Debit; Deferred Income Donation X
Credit; Designated Donation X

d. Accounting for later years

The amounts accounted for as deferred income, will be accounted as income in the subsequent years for which the Donation or Grant was intended. This shall involve sums for expenditure on activities, but also be used to offset depreciation costs in case the donation or grants was for the purchase of a fixed asset.

Debit; Deferred Income Donation X
Credit; Designated Donation Y

e. Amounts of Donations or Grants left at the end of a Financial Year

In case at the end of a financial year the donation or grant that was intended to be spent during that financial year still has a balance, then, before closing the Financial Year the amount will be accounted as "Income Designated Donations and Grants" to the "Deferred Income" on the Balance Sheet. This means that the outstanding amount is specifically recognised as liability and is not included in the surplus (which would automatically happen if the amount was not accounted for to the Balance Sheet at the end of the Financial Year).

Debit; Designated Donation X
Credit; Deferred Income Donation X

What happens to the amount accounted for depends on the decision of or agreement with the original donor. Can the money be spent during the next Financial Year? Will the money be withheld from the release for the new Financial Year? Will the money be repaid to the donor? In the last case the booking is clear.

Debit; Deferred Income Donation X
Credit; Bank Account X

In the first two cases the amount is considered to be income in the next Financial Year and will be accounted for as indicated above as income for that Financial Year.

Debit; Deferred Income Donation X

Credit; Designated Donation X

ACCOUNTING FOR DONATIONS –

2. IN KIND

Some donations are not given in cash, but in kind. This can concern: a vehicle donated, drugs/sundries, but also when work provided without pay is being requested, or when the salary is provided by a donor.

Fixed Asset Donated in Kind (e.g. vehicle)

Debit; Historical Price Vehicle X

Credit; Deferred Income Donation X

(The depreciation costs for this vehicle will be offset by debiting Historical Price Vehicle thereby gradually reducing the value remaining on the account)

Current Assets Donated in Kind (e.g. drugs)

Debit; Drugs Store

Credit; Drugs Donation

Operational Costs Donated (e.g. labour)

Debit; Remuneration

Credit; Labour in Kind

BANK RECONCILIATION

There is usually a difference in the time when data is entered in the bank's system and when data is entered in the organisation's system. This timing difference can lead to a discrepancy between the balance on the account in the bank's system and the organisation's system. There can be other causes of differences between the two balances, like errors and irregularities.
To determine whether the discrepancy between the two balances is due to timing differences only a monthly Bank Reconciliation needs to be done.

a. Each month the bank statements shall be collected for all the bank accounts, including the foreign currency bank accounts.
b. For foreign currency bank accounts the comparison between the bank's books and the organisation's cash book shall be done in the foreign currency, since the value in shillings can vary over the year as a result of variations in the exchange rates. This difference in the value in shillings is corrected at the end of the year. The bank reconciliation is done on the basis of a comparison of the relevant cash books and bank statements.

Step-by–Step Instruction for Preparing Bank Reconciliation**.**

1. Entries in the cash books (manual or computerised) shall match with entries on the bank statements. The entries will be ticked in the cash book when they appear on the bank statement. Unmatched items are listed, examined and verified.
2. Some of the unmatched items (like bank charges, interest, and transfers which appear only on the bank statement) shall be entered directly in the cash book by means of journal vouchers.

   Debit; Bank Charges
   Credit; Bank Account X

3. There are also unmatched items that cannot be journalised, because their absence from the bank statement is caused by the previously mentioned timing difference:
    a. Deposits not yet credited in the bank, but already recognised in the organisation's cash book and
    b. Outstanding cheques, also called unpresented cheques, these are cheques issued by the organisation, but who are not yet brought to the bank by the date of the bank statement.
    c. As a final step of the Bank Reconciliation, the Bank Reconciliation Form is filled. The form is filled by the Accountant and is certified by the Finance Controller. The form is filled for all bank accounts, including foreign accounts, also when the balances on the bank statement and the organisation books is identical. A standard format for the Bank Reconciliation Form is provided below.
    d. Account number
    e. End of month date, for which the reconciliation is made
    f. Balance as per bank statement
    g. Balance as per cash book of the organisation
    h. Deposits not yet credited
    i. Indicate deposit date, whether deposit was done by cheque or cash, then indicate cheque number of deposit slip number)
    j. Un presented cheques
    k. Indicate issue date, name payee, cheque number and amount)
4. Inquiries into outstanding items shall be carried out by making phone or physical contacts with banks or by correspondences. These inquiries range from arithmetic errors to unacknowledged deposits or transfers whose authority cannot be traced.

5. Unresolved items are reported to the relevant higher authorities and board of directors for further action.
6. Reflecting correct and up-to-date cash and bank balances accounts is crucial to the relevance of financial statements. Bank Reconciliation Forms shall be kept easily accessible in a specific file with all the monthly Bank Reconciliation Forms organised by bank account.

Accounting for Exchange Gain/Loss on Foreign Currency Accounts

Each time a transaction is performed the foreign currency is accounted together with an estimated "rate of exchange on transfer". The books should be kept in foreign currency as well as in Ugandan Shillings.

At the end of the year the value in shillings in the books shall be compared with the value at the Balance Sheet date. There is likely to be a difference, since exchanges rates vary daily. At the end of the year the difference is accounted for as Exchange Gain or Exchange Loss.

Reconciliation accounting for increase of value in shillings: Debit; Foreign Currency Bank Account Credit; Exchange Gain

Reconciliation booking for decrease of value in shillings: Debit; Exchange Loss Credit; Foreign Currency Bank Account

Although the account involved is in foreign currency the end-of-year correction booking shall be done in shillings only. This booking does not affect the amount in foreign currency, only the related value in shillings.

.AUDITING

1. External Auditing

The auditors report is an integral part of a professional management and control system.

It shall be the responsibility of the organisation to prepare financial statements about the organisation and its projects for the financial year. An external auditor shall be appointed annually to express an opinion on these financial statements.

a. Selection and appointment of the Auditor

i. An Audit firm shall not audit the Organisation more than three years in a row.
ii. The choice of auditors shall be the responsibility of the Board of Directors.
iii. The Board of Directors shall select an auditor from a list of "Certified Public Accountants Practicing in Uganda" from the list produced by the supervisory body of accountants: the Institute of Certified Public Accountants of Uganda, ICPAU.
iv. The auditors shall not be permitted to carry out other remunerative exercises for the organisation, such as consultancy and internal audit. This restriction and the restriction in years is meant to maintain independency of the audit firm from the organisation.

b. Engagement of the Auditor

i. The finance controller shall write and invite an auditing firm to come and audit the organisation. In the letter it shall be specified that the conditions under which the audit will take place. This will include stating:
   - The terms of reference
   - Any specific audit objectives;
   - The all inclusive total payment;
   - The payment shall be done after receiving the auditor's reports;
   - That no advances shall be given.

ii. The auditor shall be requested to respond by sending a letter of engagement. This letter of engagement will cover the broad scope of the work to be undertaken and

specifies the expectations from the Management Team before, during and after the audit visit. Any unclear matters in this engagement letter shall be discussed with the auditor beforehand.

iii. The auditor will need full cooperation from the Accounts department in terms of provision of information in the form of files, books, letters and answers to questions. The organisation needs to agree in advance with the auditor the list of financial statements that need to be prepared. Where the auditor is required to do accounting work, or where the auditor is expected to prepare the financial statements in addition to the normal audit tests, this must be explicitly stated in the letter of invitation.

iv. The auditor shall be expected to produce the Auditor's Report (the auditor's opinion) and the Management Letter (identifying weaknesses and giving recommendations).

v. The Board of Directors shall discuss Management Letter (preferably with the auditor personally) and will ask the Management Team to take action to avoid repetition of the same issues in the future.

C. Terms of Reference for the External Audit

i. The audit shall be conducted in accordance with generally accepted auditing standards.

ii. The auditor is requested to provide a professional opinion on the financial management, the bookkeeping system and the procedures for internal control, and an opinion on the financial statements of the organisation, both with explicit reference to the Financial Manual of the organisation.

iii. The auditor is expected, to give an opinion on the financial statements prepared by the organisation and to prepare a Management Letter to the Board of Directors.

iv. The opinion will be based on;

- Reviewing all relevant documents;
- Assessing the correctness accuracy and legitimacy of the financial reports;
- Examining and verifying segregation of duties and responsibilities, and the administrative procedures related to authorisation of expenditure, control of cash and inventories;
- Establish whether formal contracts with all staff have been established and whether these contracts are in accordance with the national regulations and laws (including tax laws);
- Examine all bank accounts and reconciliations of bank balances;
- Examine representative sample of payment transactions to assess accuracy and completeness of records;
- Examine correctness of exchange transactions from foreign into national currency;
- Examine correct accounting of in-kind transactions;
- Examine whether organisation funds, including gains realised have been used in line with organisation procedures concerning the budget and spending limits;
- Examine the completeness and accuracy of the fixed assets register and verify that the fixed assets are in possession of the organisation;
- Any information concerning possible liability, e.g. a pending court case which could seriously affect the financial situation of the organisation.

The Management Letter should contain:

1. Statement of any irregularities or deviations from organisation regulations as stated in the organisation's financial manual.
    a. On each of the irregularities stated the Auditor will give specific examples and attach a value (if possible), so that the materiality of the irregularities can be assessed.

2. Statement on the organisation's management of human resources: employment contracts, staff policies and compliance with national regulations concerning staff.
3. Statement on the financial management system, internal controls and administrative procedures, and the financial reports prepared by the organisation.
4. The auditor's opinion with respect to the implementation of recommendations expressed in the previous auditor's report.
5. Recommendations for improvements, if applicable.

SAVINGS AND RESERVES

1. Introduction

a. The total value of the organisation shall consist of all the money in cash or bank plus the value of the fixed assets and the items in stores and the value of the debtors minus the liabilities.
b. This value is comparable to the price that would have to be paid if the organisation would be sold.
c. This total value originates from different sources: owners, donors and operations. Some of the value was invested by the founders and by later owners (called the Capital Reserve). Some other value was received in the form of donations (called the Donation Reserve). Other value was earned by the organisation through its operations and not yet invested (Accumulated Surplus).
d. The main difference between Capital Reserve and Donation Reserve is the responsibility to replace the fixed assets. Fixed assets (like furniture) purchased with the organisation's own resources will have to be replaced by the organisation, otherwise the continuity of services would not be guaranteed.
e. At the end of each year there is a surplus or loss. The surpluses shall be kept in a specific reserve (Accumulated Surplus) to pay for costs in years in which there is a loss. If the accumulated surplus reaches above a certain level then the amounts

saved over the years shall be used for investment in new equipment to be able to provide additional services.

2. Reserve for the Current Financial Year

a. During the financial year the balance of benefits and costs is kept in the books as Reserve for the Current Book Year. This amount shall be kept until the end of the year and is then added to the Profit & Loss Reserve or to other reserves. The Reserve for the Current financial year may be positive or negative; meaning that the Profit & Loss Reserve shall increase or decrease. The end-of-year transfer implies that at the beginning of each financial year the Reserve for the Current financial year is 0.

3. Other Reserves

b. Other reserves shall be created for specific investments into the organisation (purchase fixed assets that are now donated, purchase new fixed assets to be able to offer new services). If instead of investments into the organisation future payments to others are foreseen then these should be treated as savings for liabilities.

4. Savings for liabilities

c. In case savings are needed to guarantee future liabilities, then these savings shall be booked as costs, before the surplus is calculated.

In the Accounting Policy it was stated that savings are amounts included in costs, but not spent during that financial year. The expenditure shall be done in a later financial year then also treated as income for that financial year.

FINANCIAL STATEMENTS

1. Introduction

The purpose of financial statements is to provide information about the financial position, performance and cash flow of the organisation for a given period of time to the users. It

also shows the stewardship ability of the managers to maintain the resources entrusted to them. In order to fulfil the above objectives, financial statements give information about the entity's assets, liabilities, reserves, income & expenditures and the cash flows. Financial information should be systematic to assists management to plan future operations accordingly.

The main objectives of financial reports is to provide information about financial position, performance and changes in the financial position of an entity. All these are intended to give useful information to a wide range of stakeholders enabling better informed economic decision making.

The responsibility for preparing and presenting financial statement is on management Team of the organisation which includes a standard set of financial statements comprising of:

- Statement of financial position - Balance sheet
- Statement of comprehensive income -
- Statement of changes in Equity
- Statement of cash flows

Notes to the financial statement shall include notes on accounting policies used
Some reports from the management inform of analytical report.

From the standard report known as a general purpose financial statement, other reports to third parties can be extracted.

a. The responsibility of preparing and presenting financial statements is on the Board of Directors and the Management Team of the organisation. The management is supposed to prepare a set of financial statements which includes:

- ✓ Balance sheet
- ✓ Income & Expenditure statement (Benefit & cost statement)
- ✓ Cash flow statement

b. A full set of financial statements shall also include a summary of the most relevant elements of the accounting policy and explanatory notes to the accounts.

c. While preparing financial statements the following principles shall be considered. These include:

- ✓ Having accounting policies, organisation shall have a written document stating its accounting policies.
- ✓ Compliance with international standards, the policies should comply with the International Accounting Standards.
- ✓ Fair presentation of the financial statements should give a fair presentation of the actual financial situation
- ✓ Going concern, assumption that the organisation will continue to exist in the foreseeable future.
- ✓ Accrual (cost based) basis of accounting, accounting method in which the financial recording of events is based on when the events occur, not when the cash flow takes place (e.g. when a patient is treated, not when the patient pays)
- ✓ Consistency concept, principle to use same definitions and presentations over the years, so that financial statements are really comparable over time
- ✓ Materiality concept
- ✓ Principle that reports should be relevant for the user of the report, meaning that the level of detail and the scope of the report depends on the user (departmental in-charges need detailed information about their department; board of directors need summarised information about the whole organisation)
- ✓ Off-setting, principle that in some instances it is more relevant to present a net difference between two values than the two values separately (for example, presently outstanding a debt is more relevant than total new debts and total payments of new debts).

TRIAL BALANCE

a. For each transaction a debit entry and a credit entry of equal amounts shall have been made.
b. The total of debit balances and credit balances of all ledger accounts shall be identical. A list of all ledger accounts with their debit or credit balance is called a 'trial balance'. The organisation shall prepare a trial balance for all the organisation accounts.

BALANCE SHEET

The Balance Sheet shows the resources available at a certain point in time (which is normally the end of Financial Year).

The Balance Sheet 'balances' assets employed and capital employed, which are by definition equal. The assets employed can also be described as 'use of funds', while the capital employed can be described as 'source of funds'.

Current Assets/Current Liabilities

a. The value of the current assets (cash/bank, debtors, stock) shall reflect the organisation's ability to pay, unless the debtors include a large share of problematic debtors and/or the stock is meant to cover a considerable period

b. The value of current liabilities shall indicate the organisation's payment requirement within reasonable time. When the current liabilities are too high in relation to the current assets this indicates payment problems.

2) INCOME & EXPENDITURE STATEMENT

The Income & Expenditure Statement shows what has been done and achieved during a period.

It reflects the costs and benefits of the organisation in the same categories as used in the budget.

a. The detailed Income & expenditure Statement shall be prepared for each recognised cost centre and for the organisation as a whole. The detailed Income & expenditure Statement shall have horizontal rows for all the Income & expenditure Accounts and vertical columns for the current total and for last year's total.
b. A Consolidated Income & expenditure Statement shall show the totals of the expenses for the organisations well as the totals of the income for the organisation and the gains, plus the surplus or loss for the financial year.

3) CASH FLOW STATEMENT

The difference in cash at the beginning of the year and at the end of the year is called the cash flow.

The surplus of a certain year is defined as excess of benefits over costs. The surplus can be interpreted as the profit made over the year.

The profit earned during the financial year is not necessarily found in cash. There are financial transactions that affect the cash, but are not included in the income/expenditure statement and therefore do not affect the surplus:

- Stock purchases
- debtors' payments
- Creditors' payments
- Purchase and sale of fixed assets, and
- Loans to the organisation and repayment of loans by the organisation.

The cash flow and the profit are independent measures, but the difference between the two can be explained in the form of a cash flow statement. The Cash Flow Statement explains the difference between the surplus and the cash flow (the difference in cash between the beginning and the end of the financial year).

The cash flow statement is an overview of the financial resources that have become available to the organisation in the period under study. It shows whether the additional

funds originate from financing activities (e.g. loans), selling fixed assets or from operational activities. The more they are from operational activities the better.

In conjunction with the balance sheet and income and expenditure statement the cash flow statement gives insight in the financing of activities, the liquidity and the solvency of the organisation.

BUDGETING PROCESS

The new basis of accounting ‘accruals concept’ the financial management of the Organisation is best guided by three different budgets:

a. Operational budget which details all the operational expenses.

The Management Team is responsible for the preparation and monitoring of the annual budget. The Management Team will appoint a Budget Committee to prepare proposals. The Budget Committee consists of the financial controller, Administrator, the Accountant, one of the departmental In-Charges and one of the stores In-Charges and an additional member of the management team. The master budget shall be presented to the board of directors for approval before the beginning of the financial year.

b. A capital budget based on a capital development plan

c. A cash budget to predict cash inflow and outflow.

Operational and capital budget:

a. The starting point is the preparation of a complete annual plan; Objectives, goals and targets shall be set for the Organisation for the year and these shall be submitted to the board for review and approval. The objectives, goals and targets set for each function should be comprehensive for the Organisation.

b. The accounting officer together with the financial controller shall meet with the staff at the organisation to prepare a budget that shall include goals to be achieved, detailed work plans and estimated costs. Costs shall be estimated for intended activities in the agreed work plans.

c. The agreed work plan and cost estimates should be properly aligned by finance department with the chart of accounts. A format shall be agreed upon by the budget committee, documented and communicated to the different cost centres of the organisation. The format ideally should be similar to the statement of comprehensive income for recurrent cost budget and statement of financial position for capital budget.

d. There shall be regular comparison of the actual and budgeted income and expenditure. Staff in charge of the different functions at the Organisation such as the Accountant shall prepare a budget variance analysis report on a monthly basis, by comparing the actual figures against the budgeted figures, and provide a financial analysis and budget commentary in form of notes.

e. Budget request and work plans shall be reviewed and approved by the Organisation Finance committee to the board or board.

Cash Budget

In an accruals system there is need for specific attention to be given to availability of cash. It helps to predict cash flows in and out of the organisation the difference between the inflow and outflow.

a. The organisation shall develop an annual cash budget on the basis of the operational expenditure, the capital budget and financing activities. The annual cash budget shall then be split into monthly one which will show the expected cash expenditure and collections taking into account Non-Current seasonal issues like salaries and statutory deductions and contribution remittances.

b. The budget is a planning tool and during the year there shall be a continuous (or at least regular) comparison of the actual and planned benefits and costs. Any material deviation from the budget (+10% above expected costs given the time passed during the year) shall be investigated and acted upon.

Master budget

The organisation budget is in principle a summary of all the departmental budgets. This means that planning of volumes and estimating costs is done at the level of departments.

Budget procedure

a. General Framework to be approved by Management Team,
b. On the basis of the available information from (local) government, district and UCMB the expected support from government for the next financial year is estimated by the Budget Committee. Also for the other income categories the expected income shall as much as possible be on the basis of data (e.g. increase/decrease in patient numbers and students). The information on the expected income (in three general categories: user fees, grants, other income for recurrent costs) shall be the starting point for further planning.
c. The Budget Committee shall set the general framework for the costs of the master budget in six categories: employment, supplies, transport, property, governance and administration. Depreciation costs of the fixed assets that are purchased by the organisation from its own resources (not the donated assets) are included in the property costs. Also the expected surplus shall be included. This surplus will be the basis for savings for new investments (e.g. replacing fixed assets that are presently donated). This will be presented in the following format:

Departmental Budgets

a. The Budget Committee then shall translate the General Framework into a proposal for departmental frameworks. The adjustment of the budget in comparison with the previous year does not need to be similar for all departments. The available information may, for example, suggest an increase in patient numbers for department X and a decrease for department Y.
b. The proposal and the reasons for it shall be explained and discussed in a meeting with all in-charges. This way the in-charges are fully informed about the general financial developments and the reasons for possible adjustments in the year ahead.

c. All In-charges shall put their comments and possible suggestions for adjustment in writing.
d. The Budget Committee shall take all comments and suggestions into consideration, possible adjust into the departmental frameworks and then propose them to Management Team. The Management Team shall decide and inform the in-charges on their budget limits.

CAPITAL BUDGET / CAPITAL DEVELOPMENT PLAN

The organisation shall make a 3 to 5 years Capital Development Plan. The Plan describes the plans for the coming years for:

- ✓ Sale and replacement of fixed assets (either due or not yet due), plus expected income, gain/loss at disposal and expenditure
- ✓ New investments (from the Profit & Loss Reserve), plus expected costs, and cost-benefit analysis
- ✓ Maintenance activities and maintenance costs
- ✓ Reserve levels in light of the plans.
- ✓ Depreciation costs shall be included in the budget for those items that are already self-financed by the organisation.
- ✓ Surplus to be aimed at to save for replacement of those fixed assets that are presently donated.

a. On the basis of the capital development plan a capital budget shall be made.
b. All expenditure for fixed assets shall be covered in this budget, since these costs are excluded from the recurrent budget. The source of financing of the capital budget is the accumulated surplus.

The surplus achieved at the end of each year shall be kept in a reserve called accumulated surplus. If the a
delayed, 3) a cheaper alternative shall be opted for, or 4) certain services shall be halted.